

Service Date: Feb. 12, 1992

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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IN THE MATTER OF the 1990/1991 -)	UTILITY DIVISION
1991/1992 Avoided Cost Compliance)	
Filings By Montana Power Company)	DOCKET NO. 84.10.64
)	
IN THE MATTER OF the Petition of)	
the Conservation and Least Cost)	
Planning Advisory Committee)	DOCKET NO. 90.8.48
Requesting Certain Actions Affect-))	
ing the Montana Power Company)	
)	
IN THE MATTER OF the Petition of)	
Lee Tavenner to Determine Energy)	DOCKET NO. 91.10.41
Option B Rates For Years 1989,)	
1990, and 1991)	ORDER NO. 5608

FINAL ORDER

INTRODUCTION

This Order addresses four matters: 1) Montana Power Company's (MPC) 1990/1991 avoided cost compliance filing; 2) MPC's 1991/1992 avoided cost compliance filing; 3) the effective suspension of rates in Docket No. 90.8.48, Order No. 5516; and, 4) Lee Tavenner's petition to determine Energy Option B rates for years 1989, 1990, and 1991. These matters are described and discussed below.

I. MPC's 1990/1991 Avoided Cost Compliance Filing

The Commission finds that MPC's July 1990 avoided cost compliance filing estimate of Energy Option B (EOB) rates must be revised to reflect two load and resource (L&R) adjustments. Both adjustments were raised by Lee Tavenner in his May 2, 1991, "Response to Compliance Filing,"¹³ regarding MPC's February 1991 compliance filing. MPC's February 1991 filing was a revision of its July 1990 filing in response to Order No. 5506a, Docket No. 90.8.51. The revision in response to this Order will require a run of PROMOD for contract year

1990/1991. The L&R adjustments are described below.

First, the Commission finds merit in Mr. Tavenner's Black Hills Power and Light (BHP&L) sales adjustment. MPC must model the sale as a 1.5aMW resource reduction as indicated in its June 10, 1991, letter to the Commission from MPC attorney Marjorie L. Thomas.

Second, the Commission finds merit in excluding Madison as a resource. MPC must model the Madison resource as a 7 MW energy (7aMW) loss per Mr. Tavenner's comments.

MPC asserted in its June 10, 1991, letter that it was not envisioned in Order No. 5091c that MPC micro-manage the resource tabulations to reflect such short-term perturbations such as the change in the Madison resource. The Commission does not agree that its ratemaking decisions require it or MPC to micro-manage its resource tabulations; rather, this decision requires a more accurate portrayal of resource capabilities than is presently reflected. The Commission has historically decided L&R values for MPC in general rate cases. The only difference is that the change in L&R plans adjusted by this Order stems from the Commission's intent in Order No. 5091c to base EOB rates, as much as possible, on actual L&R conditions.

In future avoided cost filings, MPC's estimates of the first year of avoided costs, for either EOB or energy option C (EOC), must account for actual and known load and resource conditions such as, but not limited to, the above two changes. For example, MPC must model the actual known hydro conditions. Beyond the first contract year of an avoided cost compliance filing the estimated hydro conditions should continue to be modeled as MPC has modeled such resources in past filings.

MPC has incorrectly interpreted Commission Order No. 5506a on the issue of line losses. In Order No. 5506a, as noted in MPC's June 10, 1991, letter, the Commission addressed the issue of classification. Nowhere in Order No. 5506a did the Commission exclude line losses from MPC's calculation of default tariffs.

In fact, MPC's interpretation of Order No. 5506a, to exclude line losses, is not consistent with the Company's

position that there exists no need to recompute 1990/1991 EOB rates. MPC's July 1990 EOB rates include line losses. If MPC fully embraced its own interpretation, but then chose to not revise its July EOB rates, it would overpay QFs by the amount of line losses. However, MPC's interpretation of Order No. 5506a is in error and MPC's inclusion of line losses in 1990/1991 rates was correct and must be continued in all future default tariff filings.

MPC's position that its July 1990 EOB filing need not be revised, aside from the above L&R adjustments, to reflect the Order No. 5506a classification method appears correct. Based on informal communication with MPC's staff, the Commission understands that all avoidable costs in year 1990/1991 were classified as energy in the July 1990 filing.

To reflect the findings above, MPC must revise its EOB payments to Mr. Tavenner. Tariffs should be filed which will then be processed to reflect revised rates.

The Commission finds that MPC must immediately revise certain language in its Order No. 5091c compliance tariffs. MPC must substitute "Energy Prices" for "System Lambdas" on Table IV. This change must be reflected in future filings as well.

II. MPC's 1991/1992 Avoided Cost Compliance Filing

The second purpose of this Order is to act on MPC's 1991/1992 avoided cost compliance filing. The Commission will dispose of numerous issues related to this filing. As a result, the Commission will require MPC to revise its 1991/1992 compliance filing.

First, MPC must include the L&R decisions regarding the 1990/1991 contract year rates in its 1991/1992 resource assumptions. These L&R decisions include the Madison outage and the BHP&L sale. These L&R changes must be included only so long as they continue to impact MPC's L&R plans. Naturally, MPC must include line losses in the default tariff rates as discussed above.

Second, the Commission is confronted with two L&R and plan options in its analysis of MPC's 1991/1992 rates. One L&R

plan was in the initial February filing and another is MPC's June 1991 Load Forecast and Integrated Least Cost Plan (LFILCP) filing.

The Commission finds that MPC must use the LFILCP filing's L&Rs in recomputing 1991/1992 rates. In so doing, MPC must apply this L&R plan to the entire contract year. Thus, there is no need to revise any L&R assumptions to reflect Commission Order No. 5484p in Docket No. 90.6.39.

MPC's LFILCP changed how the Company reports L&R forecasts. In place of contract years (e.g., 1991/1992), the LFILCP reports calendar year forecasts. This change makes difficult a comparison of L&R balances as the avoided cost contract year runs from July 1 through June 30 of the next year. Use of the LFILCP also raises some policy issues regarding rate proxying.

Third, rate proxying in the 1991/1992 filing involves two broad issues, including 1) when proxying is valid; and, 2) what resource ought to be used as a proxy if the right conditions exist. Each is discussed in turn.

The Colstrip 4 orders identified conditions when rate proxying is valid. One condition is when MPC includes unspecified resources in a L&R plan (Order No. 5360d FOFs 198 through 353). However, the Commission urged MPC to move away from the acquired resource and proxy cost method of ratemaking (Order No. 5360d, FOF 363).

MPC first reflected the Commission's findings in its 1991/1992 LFILCP. MPC's actions are evident from a comparison of its LFILCP to its prior Projection of Electric Loads and Resources (PELR). The prior PELRs contained tentative resource categories (concepts) called "acquired energy" and "acquired peak." The Commission's Colstrip 4 orders relied on these resource concepts, along with MPC's testimony, to establish rate proxying policies. Orders out of the Colstrip-4 Docket defined these resource concepts as "unspecified acquired resources" (UARs). Thus, the existence of UARs established the condition for rate proxying out of the Colstrip 4 orders. MPC's PELRs, however, evolved into the Company's 1991 LFILCP. In turn, MPC excludes acquired resource concepts in its

LFILCP. In lieu of UARs, MPC's LFILCP lists a new resource concept called a "short term purchase" (STP). MPC appears to have simply replaced UAR with STP resource concepts. Thus, one condition for rate proxying is whether MPC is resource deficient without STPs.

The Commission finds that the condition that will establish the merit of resource proxying is whether MPC is resource deficient without STPs. MPC must use this condition until such time as the Commission revisits avoided cost calculation methods. With this condition and using the June LFILCP L&R plan as an example, rate proxying for the 1992 segment of the 1991/1992 contract year has merit. Resource changes discussed above could impact the conditions for rate proxying in other years.

The next issue was raised by Mr. Tavenner in his May 2, 1991, response to MPC's February 1990 avoided cost filing and involves which resource must be used as the rate proxy. Mr. Tavenner asserts MPC made a mistake in using a Basin Electric (BE) proxy in place of BPA's NR rates for 1991/1992. Mr. Tavenner contends 1) that the BE proxy does not comply with the Commission's Colstrip 4 orders (Docket No. 88.6.15, Order Nos. 5360d and 5360e); and, 2) that MPC's estimate is dated and understates the cost of BE Power.

MPC responded to Mr. Tavenner's rate proxying arguments. MPC quotes the Commission's findings that state BPA rates are not necessarily an aspect of EOB. MPC states its BE cost estimates were reasonable and Mr. Tavenner's arguments reflect blatant opportunism.

The Commission finds that MPC's decision to include a non-BPA Power resource in its avoided cost filing to be consistent with the Colstrip 4 orders. However, for several reasons, the Commission finds MPC must continue to use the BPA NR rate in place of the BE resource in the 1991/1992 filing. These reasons generally stem from the absence of any analysis of price and non-price factors of BE's bid relative to all other bids.

First, the Company's compliance filing was nearly void of any reasoning and documentation on the BE bid. If MPC intends to use a non-BPA resource as a proxy, it should reflect the costs MPC

will, with great likelihood, incur. It is not evident to the Commission from MPC's February filing whether the BE bid remains a valid offer relative to all other offers.

Second, Mr. Tavenner's comment that the bid is dated seems valid. The Commission is not seeking perfection, but the evidence needed to backup the BE proxy is inadequate. Critical to any proxying is a coherent and detailed explanation of how resources such as BE's bid are classified to energy and capacity, the time horizon of the bid, the type of levelization, and the transmission costs incurred to integrate the resource into MPC's system. The Commission encourages MPC to continue proposing resources it may actually acquire for ratemaking purposes in future avoided cost compliance filings. Also, for this 1991/1992 filing, the Commission finds minimally acceptable the combined cycle resource costs, but permits their use in later years as proposed by MPC; in early years MPC must use BPA NR rates.

Another of Mr. Tavenner's May 1991 response comments to MPC's February filing asserts MPC made a mistake in its calculation of avoided energy costs in year 1991/1992. This error involves the timing of a BPA purchase, which resulted in an overstatement of the avoided capacity cost, and thus an understatement of avoidable energy costs. MPC explained its use of BPA rates and states its workpapers result in 9 of 12 months of its rates matching BPA's, whereas Mr. Tavenner's would only match 3 of 12 months. The Commission finds this issue moot given that Mr. Tavenner conceded the purpose of and accuracy of MPC's calculation in a July 31, 1991, letter to the Commission.

The third comment in Mr. Tavenner's May 1991 response asserts MPC's filing incorrectly excluded line losses. The Commission already addressed this issue. MPC must include line losses.

In July 1991, Mr. Tavenner augmented these criticisms of MPC's amended February 1991/1992 compliance filings. Mr. Tavenner expanded his BPA rate proxying argument to point to a BPA rate included in MPC's February compliance filing. He contends that a BPA rate with a \$.03216/kwh value should be used as a proxy.

When using BPA NR rates as proxies in the 1991/1992

contract year filing MPC should not use Mr. Tavenner's \$.03216/kwh BPA value to represent the BPA NR energy value. Neither BPA's 1989 or recent 1991 Wholesale Power Rate Schedules have a tariffed NR energy rate in excess of 27 mills/kwh. It appears Mr. Tavenner failed to exclude the BPA capacity rate component. Thus, Mr. Tavenner's above estimate must be lowered to exclude any capacity payments for purposes of an EOB rate.

Mr. Tavenner's letter also raised two new arguments regarding off-system opportunity sales (OSOS) and the winter/summer (W/S) split. Tavenner holds MPC should update its OSOS estimate and revise its (W/S) split.

The Commission finds merit in Mr. Tavenner's OSOS argument. MPC's February filing contains no explanation of the assumptions used to value OSOS. Whether avoided costs should reflect OSOS values should be based on whether the OSOS value exceeds the cost to generate or purchase power, net of transactions costs, and not whether MPC is surplus with power. This is consistent with Order No. 5091c. Thus, MPC must update its OSOS values so as to be as consistent as possible with the balance of MPC's June 1991 LFILCP and to reflect Order No. 5091c.

A last Commission finding regards Mr. Tavenner's concern with the way MPC seasonally splits costs. Through a December 13, 1989, letter to MPC from its staff, the Commission provided MPC relevant Commission policy direction, and there appears no reason to change that direction at this time.

III. Suspension of MPC's Avoided Cost Rates

On November 19, 1990, the Commission issued Order No. 5516, Docket No. 90.8.48 which, in effect, suspended MPC's avoided cost rates for larger than 1 MW-sized QFs. Also, regarding this suspension, a letter was sent to MPC over Chairman Ellis' signature, in August 1991. MPC's President Gannon (hereafter MPC) responded to this letter in November 1991.

The following summarizes the above Order and letters. First, the Order responded to a petition by the Least Cost Planning Advisory Committee (LCPAC). The LCPAC's motive for the petition was a concern that, absent a suspension, least cost

planning (LCP) efforts could be in vain -- LCP benefits could be foreclosed for up to 15 years. The Commission's Order directed MPC "to insert in any QF contract for greater than one Mw negotiated between October 25, 1990, and issuance of a final order establishing new avoided cost rates, a provision that requires an adjustment in the pricing terms to reflect, on a prospective basis, the new rates that are established." The ordering paragraphs also contain a finding that anticipated the Commission would commence and conclude an avoided cost docket, establishing new rates, by December 31, 1991.

Second, Chairman Ellis' letter focused on one question: should the responses to MPC's resource solicitation serve to set tariff rates for qualifying facilities (QFs)?

Third, MPC's November 18, 1991, response letter raised several issues. Regarding Chairman Ellis' letter MPC states that it was not the Company's intent to use the pricing portion of the resource solicitation to set QF rates. Rather, the current avoided cost method should be used in conjunction with MPC's current integrated least cost resource plan. MPC believes the Commission ought to reinstate default tariff rates for QFs smaller than 2 MWs in size. MPC adds that whenever a significant change to its L&R plans occurs, the existing default tariff should be suspended and new tariffs computed.

MPC also explains how QF resources larger than 2 MW would be acquired. MPC's proposal to acquire larger QF resources involves two different timing circumstances and two different generation products. The timing circumstances depend on whether a resource solicitation is active, and the two generation products are energy and capacity.

MPC's proposal regarding rates for QFs larger than the Commission's determined size limit raises additional policy and technical issues. In terms of policy, the proposal to use the "unit specific methodology" appears at odds with the LCPAC's petition. The LCPAC's proposal would appear to place QFs in a queue until such time as a resource solicitation process is active, thereby avoiding the issue of relevant rates for large QFs when a resource solicitation is not active. Technically speaking, the proposal to make energy payments raises questions

as to which Order No. 5091c energy rates should be paid.

As background, the Commission established a policy in Order No. 5091c to address occasions on which the tariffed avoided cost rates diverge from actual avoided costs. As stated in that order (Finding of Fact No. 230), until such time as tariffed prices attract uneconomic quantities of QF power, they shall remain tariffed with annual updates. If this mechanism appears too sluggish to respond to QF power supplies, the utility should contact the Commission and request a recalculation of prices.

For the time being, the Commission will continue the effective suspension of avoided cost rates as directed in Order No. 5516, Docket No. 90.8.48. This effective suspension will end on the date of approval of MPC's first avoided cost filing that follows MPC's least cost plan filed pursuant to Commission least cost planning rules. (The Commission has issued proposed least cost planning rules; adoption of final rules is pending.) The Commission will continue the effective suspension in order to take advantage of the substantial avoided cost information expected from MPC's first least cost plan filing. If, by July 1, 1992, MPC has not submitted a least cost plan pursuant to final Commission rules, then the Commission will implement Order No. 5091c rate changes on that date.

As a result of the above decision, the Commission continues to seek a middle ground between ratepayer and QF interests. QFs that do not have fully negotiated contracts with MPC may continue to negotiate such contracts. However, contracts for more than one (1) MW, that are signed before the effective date of the above (FOF 40) LCP avoided cost compliance filing must contain a provision that requires an adjustment in the pricing terms (see Order No. 5516).

IV. Petition of Lee Tavenner

On October 11, 1991, the Commission received a petition from Lee Tavenner requesting that the Commission determine EOB rates for years 1989/90, 1990/91, and 1991/92 pursuant to Section 69-3-603, MCA. Without making any determination on the

application of Section 69-3-603, MCA, to Mr. Tavenner's petition, the Commission notes that these requests have now been satisfied.

In Order No. 5506c, Docket No. 90.8.51 (December 9, 1991), the Commission determined EOB rates for 1989/90. By this Order the Commission determines EOB rates for 1990/91 and 1991/92.

CONCLUSIONS OF LAW

The Commission has the statutory obligation to supervise, regulate, and control public utilities. 69-3-102, MCA.

The Commission has the statutory obligation to assure that utility rates are just and reasonable. 69-3-202, MCA.

The Commission has an obligation to encourage development of cogeneration and small power production. 69-3-604(2), MCA.

The provisions of this order fairly balance the interests of ratepayers, utilities, small power producers, and cogenerators.

ORDER

Montana Power Company is directed to continue to sign all those contracts which were fully negotiated as of October 25, 1990, subject when necessary to the Commission's determination of rates and conditions pursuant to Sections 69-3-603 and 69-3-604, MCA.

Montana Power Company is directed to insert in any QF contract for greater than one MW negotiated between October 25, 1990, and issuance of a final order establishing new avoided cost rates, a provision that requires an adjustment in the pricing terms to reflect, on a prospective basis, the new rates that are established.

Montana Power Company must revise and file an EOB rate for contract year 1990/1991. MPC must file a complete Order No. 5091c default tariff for contract year 1991/1992. Montana Power Company must revise its Order No. 5091c compliance tariffs to substitute "Energy Prices" for "System

Lambdas" on Table IV in the 1990/1991 filing and in all future filings.

Docket No. 91.10.41 is hereby closed.

Montana Power Company must comply with all other Findings of Fact in this Order.

DONE AND DATED this 12th day of February, 1992, by a 5 to 0 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

HOWARD L. ELLIS, Chairman

DANNY OBERG, Vice Chairman

BOB ANDERSON, Commissioner

JOHN B. DRISCOLL, Commissioner

WALLACE W. "WALLY" MERCER, Commissioner

ATTEST:

Ann Peck
Commission Secretary

(SEAL)

NOTE: Any interested party may request that the Commission reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.